

STATE OF OREGON

**Department of Administrative Services
Risk Management**

2019-21 Risk Charges & Allocation Methodology Review

11/19/2019

Introduction

The Department of Administrative Services - Risk Management program (DAS-RM) administers the Insurance Fund to provide commercial insurance and self-insurance to state agencies. DAS-Risk Management's Services includes:

□ Claims Management

- *Investigation*
- *Claims payments*
- *Mediation*
- *Litigation*

□ Risk Consulting

- *Consultations*
- *Risk assessments*
- *Commercial insurance*
- *Training*

□ Management of the Insurance Fund

- *Actuarial reviews*
- *Cash flow analysis*
- *Reserve reports*
- *Fund status reports & Best capital adequacy requirement (BCAR) modelling*
- *Investment allocation*

DAS-RM with the approval of the Customer Utility Board (CUB), determines and collects risk charges from state agencies to provide funding for its operations.

The allocation of risk charges is based upon factors which reflect the relative risk and loss history for each agency.

Risk Management assesses risk charges on a biennial basis and includes the following components:

- Risk management program administrative costs,
- Costs to purchase commercial insurance,
- Actuarial estimates of losses for the biennium, and
- May include an additional adjustment for under/over funding to bring the Insurance Fund to an actuarially sound status.

Pursuant to ORS 278.435(1), the intent of the biennial risk charge is to reflect the expected losses for the period based on actuarial estimates. For this reason, the goal is to collect risk charges during a biennium in an amount to cover the present value of forecasted losses which arise from State's activities during the biennium.

Risk charges are designed to reflect relative risk and loss experience for each agency. If the past history of an agency indicates they represent 5% of the statewide loss payments for a particular coverage line, then generally the same percentage of exposure is attributed to that agency for future losses.

Conversely, if an agency experiences lower than expected losses (as a share of total statewide losses) in the current period, it will likely relate to a lower share of future risk charges.

The risk charge allocation methodology utilizes a 4-year loss history for each coverage line and agencies receive a proportion of the statewide cost of insurance.

Due to past economic conditions and in recognition of the dire financial environment of the state budget, DAS-RM in consultation with the Customer Utility Board (CUB), made a policy decision to limit increases of risk charges from BN 2015-17 through BN 2017-19.

DAS-Risk Management recommended projected TCOR of \$145.3 million for the BN 2019-21 in risk charges, but the CUB approved \$132.1 million which is the BCAR minimum recommended funding level.

PROBLEMS FACING THE RISK FUND

- ❑ **Legal Expenses Are Increasing Significantly**
- ❑ **Tort Cap Limit Increases chained to the CPI**
- ❑ **Complexity of Liability Claims and Litigation as a result of the tort cap limits**
- ❑ **Workers Comp Cost Increases**
 - ❑ *Older Workforce*
 - ❑ *Increased Medical Cost*
 - ❑ *Increases in Time lost Paid*
- ❑ **Legislative Mandated Transfers (A.K.A “Sweeps”)**
- ❑ **Federal A-87 Penalty**
- ❑ **Timing of the receipt of SAIF Dividends – Also Linked to A-87 Penalty**

What Are the Costs Built Into Risk Charges

The Total Cost of Risk To Allocate (TCOR) or the cost of providing insurance includes:

☐ Risk Management Administrative Cost

- Claim Management: property and liability claims including litigation
- Risk Consulting
- Finance
- Administrative Staff

☐ Commercial Coverage includes

- Workers' Compensation 10 year Retrospective Policy
- Liability Insurance Premiums
- Excess Property Premiums
- Boiler & Machinery Commercial Insurance Premiums
- Crime Insurance Premium

☐ Actuarially Projected Ultimate Outstanding Losses

- Claims Case Outstanding Reserves
- Claims IBNR (Incurred But Not Reported) Reserves
- Legal Outstanding Reserves
- Legal IBNR

Notes:

❖ *Case Reserves + Paid Losses + IBNR = Projected Ultimate Outstanding Losses*

❖ *IBNR = Projected Ultimate Outstanding Losses – (Case Outstanding Reserves + Paid Losses)*

HISTORICAL BUDGETED TOTAL COST OF RISK TO ALLOCATE

Coverage Lines	BN 2015-17	BN 2017-19	BN 2019-21	Diff (BN17/19 & BN19/21)	Percent Change
Workers Compensation Risk Cost					
Estimated SAIF Payments for Losses	\$ 44,633,558	\$ 49,467,801	\$ 52,286,465		
Estimated Basic Premium	\$ 2,641,402	\$ 3,581,298	\$ 2,950,983		
Total Estimated Terrorism & Catastrophe	\$ 796,728	\$ 974,105	\$ 848,188		
Estimated DCBS Assessment	\$ 3,229,338	\$ 3,955,841	\$ 3,379,150		
Commercial Insurance Cost (Workers Comp)	\$ 24,540	\$ 24,546	\$ 36,247		
Total	\$ 51,325,566	\$ 58,003,592	\$ 59,501,033	\$ 1,497,441	2.6%
Liability Risk Cost					
General Liability Allocation for Losses	\$ 41,231,880	\$ 45,812,800	\$ 57,926,095		
Commercial Insurance Costs (Liability)	\$ 76,000	\$ 86,542	\$ 95,879		
Total General Liability	\$ 41,307,880	\$ 45,899,342	\$ 58,021,974		
Auto Liability Allocation for Losses	\$ 2,469,050	\$ 2,511,290	\$ 2,737,130		
Total Liability Allocation	\$ 43,776,930	\$ 48,410,632	\$ 60,759,103	\$ 12,348,471	25.5%
General Property Allocation					
General Property Allocation for Losses	\$ 6,315,680	\$ 6,069,560	\$ 4,956,108		
Auto Property Allocation for Losses	\$ 3,088,750	\$ 2,512,400	\$ 2,492,087		
Total - General & Auto Property Allocation for Losses	\$ 9,404,430	\$ 8,581,960	\$ 7,448,195	\$ (1,133,765)	-13.21%
Commercial Property Cost					
Property Excess	\$ 9,436,292	\$ 6,560,639	\$ 8,458,836		
Excess DIC	\$ -	\$ 649,903	\$ -		
Boiler & Machinery	\$ 158,000	\$ 140,923	\$ 135,575		
Terrorism - Primary	\$ -	\$ 282,516	\$ 347,488		
Terrorism - Excess	\$ -	\$ 101,706	\$ -		
Total Commercial Property Cost Allocation	\$ 9,594,292	\$ 7,735,687	\$ 8,941,899	\$ 1,206,212	15.59%
Crime Cost					
Crime Cost	\$ 177,332	\$ -	\$ -		
Crime-Excess	\$ -	\$ 74,946	\$ -		
Crime Primary	\$ -	\$ 164,573	\$ 327,500		
Total Crime Cost	\$ 177,332	\$ 239,519	\$ 327,500	\$ 87,981	26.9%
Total Commercial Property and Crime Allocation	\$ 9,771,624	\$ 7,975,206	\$ 9,269,399	\$ 1,294,192	14%
Total Property Allocation	\$ 19,176,054	\$ 16,557,166	\$ 16,717,594	\$ 160,428	0.84%
Risk Admin Cost					
Risk Admin (Workers Comp)	\$ 1,360,210	\$ 1,093,438	\$ 1,162,577		
Risk Admin (Liability)	\$ 5,808,099	\$ 4,847,445	\$ 4,795,481		
Risk Admin (Property)	\$ 2,223,984	\$ 2,348,721	\$ 2,389,272		
Total Risk Admin Allocation	\$ 9,392,293	\$ 8,289,605	\$ 8,347,330	\$ 57,725	0.6%
Total Cost of Risk to Allocate	\$ 123,660,202	\$ 133,197,970	\$ 145,325,060	\$ 12,127,090	9.1%

BILLED & CUB APPROVED TCOR

Coverage Lines	BN 2015-17	BN 2017-19	BN 2019-21	Diff (BN 17/19 & BN 19/21)	Percent Change
Workers Compensation Risk Cost					
Estimated SAIF Payments for Losses	\$ 38,581,410	\$ 38,295,081	\$ 47,089,760	\$ 8,794,679	
Estimated Basic Premium	\$ 2,283,238	\$ 2,772,432	\$ 2,657,687	\$ (114,745)	
Total Estimated Terrorism & Catastrophe	\$ 688,695	\$ 754,095	\$ 763,888	\$ 9,793	
Estimated DCBS Assessment	\$ 2,791,451	\$ 3,062,381	\$ 3,043,299	\$ (19,082)	
Risk Admin Cost	\$ 1,175,770	\$ -	\$ -	\$ -	
Commercial Insurance Cost (Workers Comp)	\$ 21,212	\$ 86,542	\$ 36,247	\$ (50,295)	
Total	\$ 45,541,776	\$ 44,908,536	\$ 53,590,881	\$ 8,682,345	16.2%
Liability Risk Cost				\$ -	
General Liability Allocation for Losses	\$ 35,640,977	\$ 35,465,593	\$ 52,168,871	\$ 16,703,278	
Commercial Insurance Costs (Liability)	\$ 65,695	\$ 86,542	\$ 95,879	\$ 9,337	
Auto Liability Allocation for Losses	\$ 2,134,255	\$ 1,944,094	\$ 2,465,089	\$ 520,995	
Risk Admin Cost	\$ 5,020,540	\$ -	\$ -	\$ -	
Total Liability Allocation	\$ 42,861,467	\$ 37,496,229	\$ 54,729,839	\$ 17,233,610	31.5%
General Property Allocation				\$ -	
General Property Allocation for Losses	\$ 5,459,292	\$ 4,698,699	\$ 4,463,525	\$ (235,174)	
Auto Property Allocation for Losses	\$ 2,669,924	\$ 1,944,953	\$ 2,244,401	\$ 299,448	
Total - General & Auto Property Allocation for Losses	\$ 8,129,216	\$ 6,643,652	\$ 6,707,926	\$ 64,274	1.0%
Total Commercial Property Cost Allocation	\$ 8,293,333	\$ 7,735,687	\$ 8,941,899	\$ 1,206,212	
Total Crime Cost	\$ 153,286	\$ 239,519	\$ 327,500	\$ 87,981	
Risk Admin Cost	\$ 1,922,418	\$ -	\$ -	\$ -	
Total Property Allocation	\$ 18,498,253	\$ 14,618,858	\$ 9,269,399	\$ (5,349,459)	-57.7%
Risk Admin Cost				\$ -	
Risk Admin (Workers Comp)	\$ -	\$ 1,348,935	\$ 1,088,643	\$ (260,292)	
Risk Admin (Liability)	\$ -	\$ 5,980,114	\$ 2,237,325	\$ (3,742,789)	
Risk Admin (Property)	\$ -	\$ 2,897,531	\$ 4,490,510	\$ 1,592,979	
Total Risk Admin Allocation	\$ -	\$ 10,226,580	\$ 7,816,478	\$ (2,410,102)	-30.8%
Total Cost of Risk to Allocate	\$ 107,250,203	\$ 107,250,203	\$ 132,114,522	\$ 24,864,319	23.2%

If DAS-Risk Management were to recover the entire amount needed to make the Insurance Fund actually sound, we would need to collect \$148.2 million in risk charges but the recommended BCAR \$132.1 million was approved for allocation.

Coverage Lines	BN 2015-17		BN 2017-19		BN 2019-21	
Workers Compensation Risk Cost						
Estimated SAIF Payments for Losses	\$	38,581,410	\$	38,295,081	\$	47,089,760
Estimated Basic Premium	\$	2,283,238	\$	2,772,432	\$	2,657,687
Total Estimated Terrorism & Catastrophe	\$	688,695	\$	754,095	\$	763,888
Estimated DCBS Assessment	\$	2,791,451	\$	3,062,381	\$	3,043,299
Risk Admin Cost	\$	1,175,770	\$	-	\$	-
Commercial Insurance Cost (Workers Comp)	\$	21,212	\$	86,542	\$	36,247
Total	\$	45,541,776	\$	44,908,536	\$	53,590,881
Liability Risk Cost						
General Liability Allocation for Losses	\$	35,640,977	\$	35,465,593	\$	52,168,871
Commercial Insurance Costs (Liability)	\$	65,695	\$	86,542	\$	95,879
Auto Liability Allocation for Losses	\$	2,134,255	\$	1,944,094	\$	2,465,089
Risk Admin Cost	\$	5,020,540	\$	-	\$	-
Total Liability Allocation	\$	42,861,467	\$	37,496,229	\$	54,729,839
General Property Allocation						
General Property Allocation for Losses	\$	5,459,292	\$	4,698,699	\$	4,463,525
Auto Property Allocation for Losses	\$	2,669,924	\$	1,944,953	\$	2,244,401
Total - General & Auto Property Allocation for Losses	\$	8,129,216	\$	6,643,652	\$	6,707,926
Total Commercial Property Cost Allocation	\$	8,293,333	\$	7,735,687	\$	8,941,899
Total Crime Cost	\$	153,286	\$	239,519	\$	327,500
Risk Admin Cost	\$	1,922,418	\$	-	\$	-
Total Property Allocation	\$	18,498,253	\$	14,618,858	\$	9,269,399
Risk Admin Cost						
Risk Admin (Workers Comp)	\$	-	\$	1,348,935	\$	1,088,643
Risk Admin (Liability)	\$	-	\$	5,980,114	\$	2,237,325
Risk Admin (Property)	\$	-	\$	2,897,531	\$	4,490,510
Total Risk Admin Allocation	\$	-	\$	10,226,580	\$	7,816,478
Total Cost of Risk to Allocate	\$	107,250,203	\$	107,250,203	\$	132,114,522

Historical Data – TCOR & Billed Risk Charges (BN 2013 – BN 2017)

11/13 Billed Risk Charges								
	Property	Auto Liability	General Liability	Workers Comp	Risk Admin	Total	Percent Change	Remarks
Total Risk Charge	\$ 15,887,255	\$ 2,313,044	\$ 36,667,746	\$ 51,602,886	\$ -	\$ 106,470,931		
13/15 Billed Risk Charges								
	Property	Auto Liability	General Liability	Workers Comp	Risk Admin	Total	Percent Change	Remarks
Total Risk Charge	\$ 20,131,997	\$ 1,863,000	\$ 40,452,701	\$ 45,812,189	\$ -	\$ 108,259,887	1.7%	
15/17 TCOR								
	Property	Auto Liability	General Liability	Workers Comp	Risk Admin	Total	Percent Change	Remarks
Total Risk Charge	\$ 21,400,038	\$ 2,469,050	\$ 47,115,979	\$ 52,685,775	\$ -	\$ 123,670,842	14.2%	10% Investment Offset
15/17 Billed Risk Charges								
	Property	Auto Liability	General Liability	Workers Comp	Risk Admin	Total	Percent Change	Remarks
Total Risk Charge	\$ 18,498,254	\$ 2,134,255	\$ 40,727,212	\$ 45,541,776	\$ -	\$ 107,250,203	-0.9%	Further \$4.6 Million LFO Reduction
17/19 TCOR								
	Property	Auto Liability	General Liability	Workers Comp	Risk Admin	Total	Total	Percent Change
Total Risk Charge	\$ 16,557,166	\$ 2,511,290	\$ 45,899,342	\$ 58,003,592	\$ 10,226,580	\$ 133,197,970	24.2%	Actuarially Projected
17/19 Billed Risk Charges								
	Property	Auto Liability	General Liability	Workers Comp	Risk Admin	Total	Percent Change	Remarks
Total Risk Charge	\$ 14,618,858	\$ 1,944,094	\$ 35,552,135	\$ 44,908,536	\$ 10,226,580	\$ 107,250,203	0.00%	Based on Estimated Fund Balance and to prevent Legislative Sweeps
19/21 TCOR								
	Property	Auto Liability	General Liability	Workers Comp	Risk Admin	Total	Total	Percent Change
Total Risk Charge	\$ 16,717,594	\$ 2,737,130	\$ 58,021,974	\$ 59,501,033	\$ 8,347,330	\$ 145,325,060	35.5%	Actuarially Projected
19/21 Approved Risk Charges								
	Property	Auto Liability	General Liability	Workers Comp	Risk Admin	Total	Percent Change	Remarks
Total Risk Charge	\$ 9,269,399	\$ 2,465,089	\$ 52,264,750	\$ 53,590,881	\$ 7,816,478	\$ 132,114,522	23.2%	\$132.1 Million BCAR Recommended

Projected TCOR & Approved Risk Charges	BN 2015-17	BN 2017-19	BN 2019-21
Projected TCOR	\$ 123,660,202	\$ 133,197,970	\$ 145,325,060
Approved Risk Charges	\$ 107,250,203	\$ 107,250,203	\$ 132,114,522
Difference	\$ 16,409,999	\$ 25,947,767	\$ 13,210,538

During the 2015-17 biennium, risk charges increased 1.7% but the “true Total Cost of Risk” (TCOR) was \$123.6 million or a 14.2% projected increase in risk charges.

DAS-RM in consultation with the Customer Utility Board (CUB) made a business decision to liquidate 10% of Risk Fund’s investment as a strategy to keep risk charges stable and this resulted to 0.9% drop in risk charges after further LFO adjustments.

Again during the 2017-19 biennium, another business decision was made to keep risk charges at the 2015-2017 biennium level. This also resulted to a 0.01% increase in risk charges as against the actual 24.2% projected increase.

For the 2019-21 biennium, the actual budgeted TCOR is at \$145.3 million with an implied 35.5% increase in risk charges.

But our Best Capital Adequacy Requirement model (BCAR), recommended a \$132.1 million minimum required capital which was approved by the CUB with an implied increase of 23.2% in risk charges across the board.

SLOVENCY OF THE RISK FUND

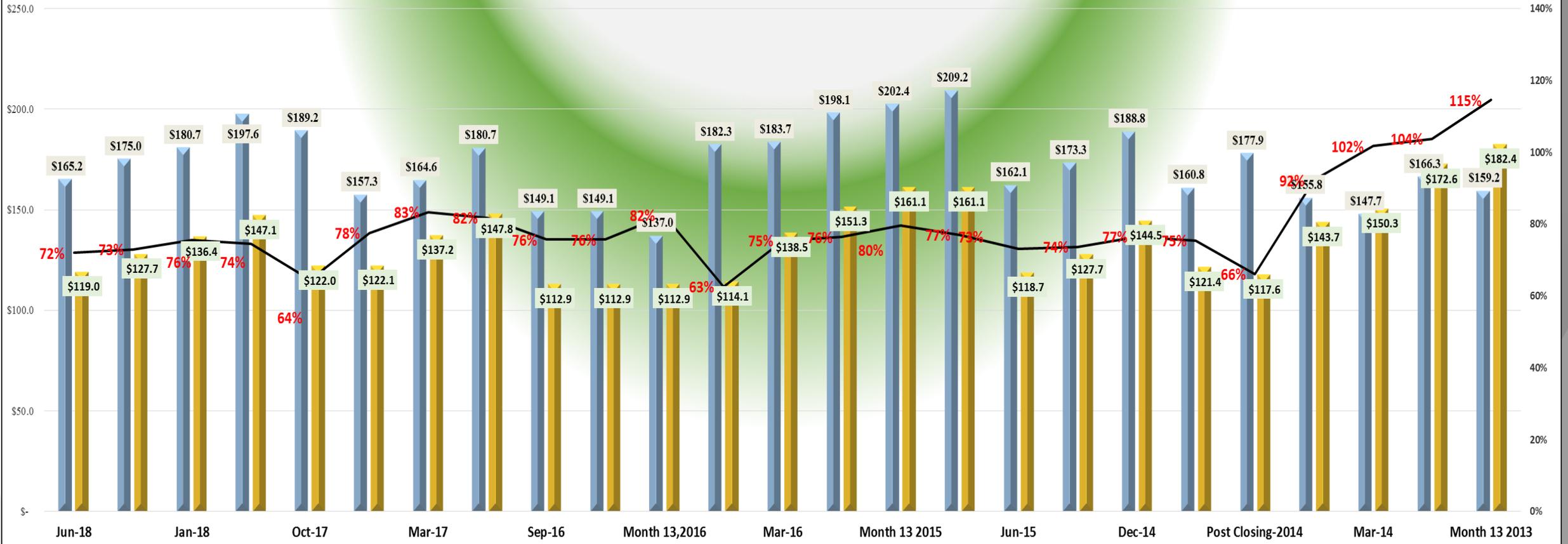
As required by ORS 278.435, the Insurance Fund is to be actuarially sound such that funding is sufficient to pay for claims, losses and related costs of insurance to cover all state activities.

DAS-RM projects the status of the Insurance Fund on a quarterly basis by comparing current cash and investment to projected liabilities. As of June 30th, 2018, DAS-RM projected Insurance Fund assets of \$119.0 million and liabilities of \$165.2 million; a difference of \$46.2 million which equates to 72.0% funded level.

The funded level of 72.0%, which is a rudimentary financial indication of solvency, indicates that the insurance fund is solvent and actuarially sound. But a closer scrutiny of the fund's underwriting, asset and financial leverage areas or the "balance sheet strength" through the Best's Capital Adequacy Ratio (BCAR) model, which allows for an integrated view of solvency and actuarial soundness, indicates that the fund is insolvent and not actuarially sound.

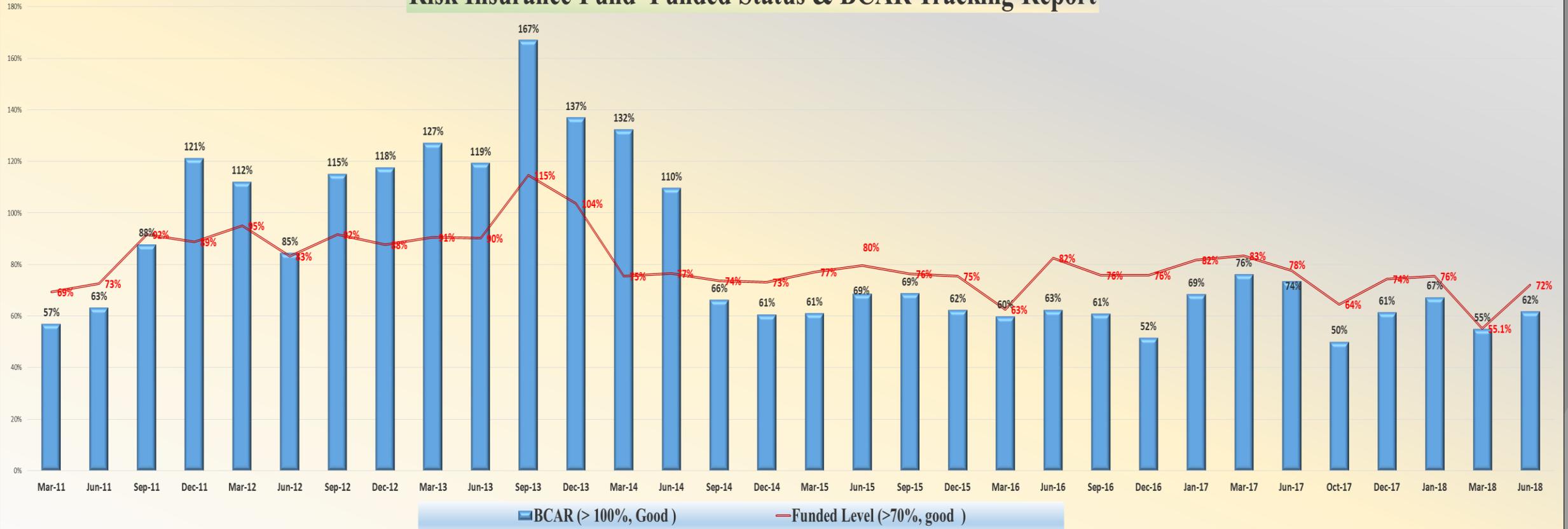
As shown in the charts below, the fund's BCAR ratio of 62% as of June, 2018 when compared with the BCAR rating criteria of equal or greater than 100%, this implies that the fund's total assets of \$119.0 million is insufficient to cover its \$165.2 million liabilities without additional capital infusion or risk charge revenues.

Insurance Risk Fund Status Report



■ Net Liabilities (Millions)
 ■ Net Cash & Investments (Millions)
 — Funded Level (>70%, good)

Risk Insurance Fund Funded Status & BCAR Tracking Report



BCAR GUIDELINES	RATING
Secure:	
175	A++ (Superior)
160	A+ (Superior)
145	A (Excellent)
130	A-(Excellent)
115	B++ (Good)
100	B+ (Good)
Vulnerable:	
90	B (Fair)
80	B- (Fair)
70	C++ (Marginal)
60	C+ (Marginal)
50	C (Weak)
40	C- (Weak)
<40	D (Poor)

Risk Charge Allocation Methodology

Rate Allocation Goals

- Implement allocations that are
 - Equitable
 - Eliminate / Reduce subsidization
 - Avoid / Minimize agency budget disruption

Changes to the Old Allocation Methodology Prior BN 2015-17

- Waivers eliminated
- Minimums eliminated for all but Risk Administration
- Minor allocation change for Workers' Compensation
- Risk Administration now a separate allocation bucket

Issues With The Old Allocation Methodology

- **Risk Administration**
 - Not currently paid by all agencies
 - Many non-claims related services provided
- **Waivers**
 - Costs don't disappear
 - They are reallocated and paid by other agencies
 - Amount allocated was Forward Looking
 - Allocation methodology was Backward Looking and heavily loss weighted

Changes to the Old Allocation Methodology

- Waivers eliminated
- Minimums eliminated for all but Risk Administration
- Minor allocation change for Workers' Compensation
- Risk Administration now a separate allocation bucket

Old Methodology Risk Cost Allocation Buckets

- All used 4 year lookback on claim history
- Workers' Compensation
- Auto Property
- General Property
- Commercial – Excess Property & Crime
- Auto Liability
- General Liability

ALLOCATION METHODOLOGY REVIEW

Workers' Compensation

- **Old Allocation Methodology**
 - Waived up to 4 claims average time loss (\$60K 15/17)
 - \$1500 minimum charge
 - Allocation was 100% based on Severity (claims costs)
 - Risk Admin included with loss allocation

CUB Approved Allocation Methodology (15-17)

- Waiver eliminated
- Minimum charge removed
- Allocation was 100% based on Severity (claims costs)
- Allocation is now based on 90% severity and 10% FTE

Property Allocation

Auto Property

Old Allocation Methodology

- No waiver
- No minimum
- Loss Allocation: 20%
Frequency, 80% Severity
- No Risk Admin charges

CUB Approved Allocation Methodology (15-17)

- Waiver eliminated
- Minimum charge removed
- Allocation is still 20% Frequency and 80% Severity

General Property

Old Allocation Methodology

- No waiver
- No minimum
- Loss Allocation: 75% Severity, 25% TIV (Total Insured Value)
- Risk Admin included in Loss Allocation

CUB Approved Allocation Methodology (15-17)

- No waiver
- No minimum
- Loss Allocation: 75% Severity, 25% TIV (Total Insured Value)
- Risk Admin Cost Excluded in Loss Allocation

Commercial Insurance Costs

- Only Excess Property and Crime policies
- Other policies included in Coverage line
 - Example: Special Events Liability included in General Liability

Excess Property & Crime Allocation Methodology

Old Allocation Methodology

- No waiver
- No minimum
- Loss Allocation:
 - Property 100% TIV
 - Crime 100% FTE
- Risk Admin: 100% Severity

CUB Approved Allocation Methodology (15-17)

- No waiver
- No minimum
- Loss Allocation: Remains the same
 - Property 100% TIV
 - Crime 100% FTE
- Risk Admin: Excluded

Liability Allocation

Auto Liability

Old Allocation Methodology

- Waived one loss per year up to \$100K
- No minimum
- Loss Allocation:
 - 20% Frequency
 - 80% Severity

CUB Approved Allocation Methodology (15-17)

- No waiver
- No minimum
- Loss Allocation: Remains the same
 - 20% and 80% for Frequency and Severity Remains the same
- Risk Admin: Excluded and as a separate allocation bucket

General Liability

- **Old Allocation Methodology**

- Waived one loss per year up to \$200K
- \$2000 minimum
- Loss Allocation:
 - 15% Frequency
 - 75% Severity
 - 10% FTE
- Risk Admin: Included in Loss Allocation

- **CUB Approved Allocation Methodology 15-17**

- No waiver
- No minimum
- Loss Allocation:
 - 15% Frequency
 - 75% Severity, and
 - 10% FTE remains the same
- Risk Admin: Excluded but now a separate allocation bucket

Risk Admin Allocation

As approved by the CUB for during the BN 2015-17, Risk admin cost has been excluded from the workers comp, property and liability cost of risk to allocate. There is a \$1,250 minimum charge for risk admin and also kept as a separate allocation based on the following allocation methodologies.

Liability Risk Admin Allocation

- Includes Auto & General Liability
- Data Used: Auto & General Liability Loss Data
- **Allocation:**
 - 25% Frequency
 - 25% Severity
 - 25% FTE
 - 25% TIV

Workers Comp Risk Admin Allocation

- Data Used: Workers Comp Loss Data
- **Allocation:**
 - 25% Frequency
 - 25% Severity
 - 25% FTE
 - 25% TIV

Property Risk Admin Allocation

- Includes Auto & General Property
- Data Used: Auto & General Property Loss Data
- **Allocation:**
 - 25% Frequency
 - 25% Severity
 - 25% FTE
 - 25% TIV

Questions?

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